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# EFFECT OF BOARD GENDER DIVERSITY ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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## Abstract

The purpose of this paper was to analyze the effect of board gender diversity on performance of commercial banks in Kenya for the period 1998-2009. Stepwise regression was used to analyze the effect of board diversity on performance. It was found that boards of commercial banks in Kenya are male-dominated. On average, out of a typical board size of 8 members, only 1 is a female director. Finally, this study finds that board diversity has no effect on performance of banks in Kenya.

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**Keywords:** Board diversity, Gender diversity, Performance, Commercial banks

## 1.1 Introduction

The board of directors is one form of internal control mechanisms in corporates since the board members appoint, supervise and remunerate top managers in organizations in addition to strategy formulation (Minguez and Campbell, 2010). Over many years, studies have investigated the effect of board composition on the performance of firms, majorly focusing on the proportion of non-independent directors such as Agrawal and Knoeber (1996), tenure of the board as in Hermalin and Weisbach (1991), shares held by directors as done by Weisbach (1988), board size as investigated by Kini et al. (1995), and board meetings studied by Vafeas (1999), Brick and Chidambaram (2007).

Recently, researchers have started investigating the effect of board diversity which is described as the variation among its members (Coffey & Wang 1998). The areas of concern have been expertise and managerial background, personalities, learning styles, education, age and values. This study focuses on board gender diversity as a component of board

composition. The effect of this board attribute on performance of commercial banks is analyzed. In corporate governance circles, board gender diversity is inclusion or presence of female directors in the boards. This is the definition adopted by this study. This study focuses on the commercial banks since few studies have been done on them as regards board diversity (Tanna, Pasiouras, & Nnadi, 2006). Further to this, other non-financial sector studies that have been undertaken in other countries cannot be generalized to commercial banks as they are significantly different from their non-financial counterparts (Adams and Mehran, 2003). The other reason the financial sector was picked is that majority of the studies that have been carried out mostly dealt with multi-sectoral firms and hence mixed findings established as posited by Randoy et al. (2006). In order to break away from that practice this study sought to focus on one sector that is the financial sector. The financial sector also was picked because the data for the study was easily available from the regulator that is the Central Bank of Kenya (CBK). Finally, this study has been motivated by the scanty of literature that is found in the Kenyan context.

In Kenya, corporate boards including those of commercial banks are said to be male dominated since the appointments are done in an old boy network (Business Daily, 2010). Old boy network is whereby the male directors introduce their friends to boards before they retire. The Institute of Directors of Kenya decries that this appointment process denies majority of the women the chance to be selected to the corporate boards hence depriving the organization this important resource. This therefore means the effect of a diverse board on firm value as pointed out by Carter et al. (2003), Hambrick et al. (1996), Bohren & Strom (2007) etc. may not be felt in the Kenyan context. However, this situation may not last especially with the passing of the new constitution which requires female participation in almost all spheres of life.

From that perspective, this paper aims establishing the effect of gender diversity on performance of banks in Kenya.

## **1.2 Problem statement**

Board diversity as a corporate governance concept has recently caught the attention of policymakers, managers, directors, shareholders, and academia (Johansen, 2008). Following this interest, various studies have been undertaken to establish the effect of board diversity on firm performance. These studies however, focus on the developed countries. Few studies have been carried out in the developing countries, Kenya being included. The other thing that

is evident from the studies from developed countries is that most of the studies focused on the non-financial sector with very few actually dealing with the financial sector. In some cases, the financial sector firms have been eliminated from the sample of firms under study in major developed economies for instance, Minguez-Vera and Campbell (2008) doing a study in Spain eliminated financial sector firms.

Notwithstanding, the findings from the non-financial sector studies have been inconclusive which Randoy et al., (2006) argue is a result of country differences, legal and cultural differences, timing, differences in firm performance measures. This therefore means that the findings of these non-financial sector studies cannot be generalized to the financial sector and do not adequately inform us of the relationship between board diversity and firm performance in other sectors.

In Kenya for example, scanty of literature can be found on relationship between gender diversity and bank performance with exception of Barako & Brown (2008). Barako & Brown (2008) established that board diversity in Kenya's banking industry leads to improved corporate social reporting. This study however, focused on the relationship between gender diversity and corporate social reporting in commercial banks.

But with the new constitution in place in Kenya, majority of women are likely to participate actively in various activities including business management. This study may have been timely to establish what effect board diversity would have on performance with specific focus on the business community. This comes in the backdrop of evidence that gender diversity in boardrooms can add value to the firm by creating better client relationships, risk and audit management (Gulamhussen & Santa, 2010). This research seeks to address all these by looking at board diversity in the commercial banks in Kenya.

## **2.1 Literature**

### **2.1.1 A brief overview of the banking sector in Kenya**

The banking industry in Kenya comprises of the Central Bank of Kenya as a regulatory authority, commercial banks, non bank financial institutions, Forex bureaus and deposit taking microfinance institutions (Central Bank of Kenya Banking Supervision Report, 2009). At the moment there are 46 financial institutions in the banking industry of which 44 are commercial banks and 2 are mortgage finance companies. Furthermore, there is 1 deposit taking microfinance institution and 130 Forex bureaus (Ibid, 2009). The commercial banks and mortgage finance companies are licensed and regulated under the Banking Act and

Prudential Guidelines. On the other hand deposit taking microfinance companies are licensed and regulated under the Microfinance Act. Forex bureaus are licensed and regulated under the Central Bank of Kenya Act and Forex Bureau Guidelines

Of the 46 financial institutions, 33 are locally owned and 13 are foreign owned. The locally owned comprises 3 banks with public shareholding, 28 privately owned commercial banks and 2 mortgage finance companies. The foreign owned financial institutions comprised 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks (Central Bank of Kenya Banking Supervision Report, 2009).

### **2.1.2 Corporate governance in Kenya**

Corporate governance has gained prominence in Kenya as is the case in other countries. This has been caused partly by corporate failure or poor performance of public and private companies (Barako et al., 2006). Corporate governance framework in Kenya is advocated by the Center for Corporate Governance Kenya which is an affiliate of the Commonwealth Association for Corporate Governance (Ibid, 2006).

It is well understood that the first attempt to bring into focus the corporate governance framework in Kenya started in 1999 when the Center for Corporate Governance Kenya developed a framework which was voluntary for companies to adopt. The framework developed by this center was further taken up by the Capital Markets Authority (CMA) in 2000 as draft corporate governance practices for listed companies in Kenya. In later years the CMA made it mandatory for the listed companies to adopt those corporate governance practices. These corporate governance practices mainly dealt with the issues of the board such as board composition, role of audit committee, separation of the role of Chief Executive Officer and the chair. In addition, they focused on the rights of the shareholders.

The banking industry in Kenya is highly regulated. The Central Bank of Kenya specifies the corporate governance practices to be adopted by all commercial banks operating in Kenya. The central bank requires all licensed banks to adopt practices like having at least five directors of which three-fifths should be independent directors; having board committees; directors not having multiple directorships in more than two licensed institutions among others (Central Bank of Kenya Prudential Report, 2006).

### 2.1.3 Board gender diversity

Board gender diversity is the presence of female directors in corporate boards of directors (Dutta & Bose 2007);(Campbell & Mínguez-Vera 2008);(Nguyen et al. n.d.). The participation of women in the labor market has grown since 1980 although this has not been matched with the improvement in quality of employment (ILO, 2007). In many European countries the participation of women in the labor market is lower as compared to men (Curdova, 2005). This is a common phenomenon in majority of countries including Spain (Campbell & Mínguez-Vera 2008). Alongside this, gender representation in boardrooms gained impetus in the early 2003 after the release of Higgs Report on good corporate governance in the UK. Despite the release of the Higgs Report, company boards remain largely male dominated (Grosvold et al., 2007). Of late this has come to change especially in developed economies. For example, in the US, female representation in boards increased from 3.7% to 8.6% from 1993 to 2003 (Conyon & Mallin 1997; Singh & Vinnicombe, 2004). Such an increasing trend has also been experienced in UK where female directors have doubled since 1999 (Grosvold et al. 2007). It is believed that the change in board gender diversity is as a result of partly the implementation of equal opportunity programs which are a bit problematic to implement in senior management (Grosvold et al., 2007).

Globally, there have been a number of studies which paid attention on the gender diversity of corporate boards recently e.g. Burke, (1999), Sheridan & Milgate, (2003), Farrell & Hersch 2005). Burke's (1999) study of the leading three hundred and fifty companies in Canada showed that small number of women was being represented on Canadian boards and the relationship between female presence on the corporate board and firm size, where larger boards had far more women. Sheridan & Milgate (2003) surveyed Australian listed companies and found that men favored homogeneity at the board level, while women were advocating diversity. At the time of Sheridan & Milgate's (2003) study, a paltry 3.4% of Australian board directors were women. Farrell & Hersch (2005) studied Fortune 500 and Service 500 companies to establish how gender influenced board selection. It was found out that women were added to the board until the company's diversity goal was met and that once they were pleased that bare minimum adequate female board representation was ensured, they no longer looked to increase the number of female directors.

Gender representation in boardrooms has been determined to vary by country. In countries where affirmative action is already in place like Norway and Sweden, female directors are higher than those countries without. In fact, compared with UK, Norway has

50% more female directors (Grosvold et al. 2007). A listing of countries with the respective statistics of female directors in the year 2009 is provided in appendix 4. Interestingly, no statistics for Kenya is provided in that appendix. In Africa, limited studies have been carried out to show female representation on the board. The few studies obtained show the same trend as in other western developed countries for instance in South Africa in 2005 only 11.5% of the board positions were held by women (Campbell & Mínguez-Vera 2008). At the same time, (Williams 2001) found out that in South Africa's public listed companies the female directors were either one or two and that those firms with no female directors were far more than those in developed economies.

In Kenya, statistics on gender representation in boards of directors are scanty. However, scattered data and some anecdotal evidence reports that Kenyan boards are overwhelmingly male dominated (Business daily, 2010). This is not different from the UK situation as found out by Grosvold et al. (2007). This, in Kenya, as provided by the anecdotal evidence is believed to arise from the recruitment process which is referred as old -boy network. The old boy network is whereby the old members of the boards introduce their own friends to be board members before they retire. At the same time it is believed that the corporate scene is male dominated because of inadequacy of the nominating committees as recommended by the Capital Markets Authority (Ibid, 2010).

In terms of the banking industry gender representation in boards of selected European countries is shown in appendix 5. From the two tables (i.e. tables 2.1 and 2.2 in appendices 4 and 5), statistics point that the proportion of female directors in the banking industry is far below that of all sectors. This is even reflected in the countries in which gender diversity is mandatory e.g. Norway and Sweden but still the proportion in these countries is higher as compared to other countries.

#### **2.1.4 Why board gender diversity?**

The effect of gender diversity on firm performance is inconclusive given the findings of various studies that have been undertaken worldwide. Although the effect is not clear, many theories have been put forward explaining why gender diversity may have effect on the firm value. First, Robinson & Dechant (1997) through their intuitive reasoning argue that firms that are diverse in the board rooms tend to outperform those that are less diverse. They argued that diversity promotes better understanding of the marketplace by matching the diversity of directors to that of customers and employees hence increasing market

penetrability. It is also argued that gender diversity leads to creativity and innovation as these features are not randomly distributed in the population (Ibid, 1997), hence bringing about changes in firm performance.

Carter et al. (2003) explain the relationship between board gender diversity and firm performance based on the agency theory and they posit that board gender diversity enhances the board's ability to monitor top management. In addition to this, they argue that increasing the number of female directors may increase board's independence since women tend to ask questions that male directors may not ask.

In addition, Smith et al. (2006), posit that board gender diversity enhances problem solving as a variety of perspectives arise hence more alternatives are evaluated in the process. Furthermore, a more gender diverse board may also improve a firm's competitive advantage provided it improves the image of the firm and if this has a positive effect on customers' behavior and thus on a firm's performance (Smith et al., 2006).

In western economies diversity issues have taken centre stage because of the following reasons; first, many institutional investors are implementing diversity aspects as part of their investment practices and commitment to diversity in employment is part of socially responsible investment indices (Throsvold et al., 2007). Also board gender diversity is desired by customers, employees and other stakeholders since it demonstrates the sensitivity of management to stakeholder preferences, aspirations and concerns (Ibid, 2007). Lastly, board gender diversity has been the subject of discussions for best practices in corporate governance.

For example, the Higgs Report on the role and effectiveness of non-executive directors highlights the fact that "... the current population of non-executive directors is narrowly drawn" (Higgs, 2003), and argues that "... a commitment to equal opportunities ... is inevitably undermined if the board itself does not follow the same guiding principles" (Higgs, 2003).

There are also arguments that increased board gender diversity might decrease firm performance. Earley and Mosakowski (2000) argue that members of homogeneous groups communicate more frequently as they are more likely to share similar opinions. Likewise, Tajfel and Turner (1985) and Williams and O'Reilly (1998) argue that homogeneous groups are cooperative and have less touching conflicts.

However, if greater board gender diversity generates more conflicting opinions, decision-making becomes time consuming and less effective (Lau and Murnighan 1998). However, Nowell and Tinkler (1994) report that women are more cooperative than men,



although Brown-Kruse and Hummels (1993) posit that the converse is also true. Conflicts in the boardroom may be determined by the degree of humanity inherent in male and female behaviour: Andreoni and Vesterlund (2001) argue that men are more altruistic than women when the cost of altruism is low and that the converse is true when this cost is high.

A further reason supporting the observation that greater board gender diversity is related with lower firm performance can be found in the arguments of Jianakoplos and Bernasek (1998) that women are more risk-averse than men, while Cox and Blake (1991) explain that women increase the costs of the firm as a result of higher turnover and absenteeism. Greater gender diversity may negatively affect the performance of the firm if women directors are appointed as “tokens” rather than for their competence. In this accord, Rosabeth Moss Kanter’s theory of tokenism is applicable. Kanter concluded that the life of female employees in the company is influenced by the proportions in which they find themselves (Kanter 1977). She went on to define a ratio of 85:15 as a theoretical benchmark where members of the majority (85% or more) were “dominants” while the remaining minorities (15% or less) were “tokens”. However, she explains that women who are appointed as “tokens” may not necessarily have a negative impact on firm performance.

Kanter points out that such kind of employees may find themselves under more pressure to show their professional worth as compared to their dominant counterparts and they also have to work harder to receive recognition for their achievements. Further, women directors who perceive themselves to be “tokens”, and thus to be indicative of their gender, may be motivated to perform well not just for themselves but because of the figurative consequences of their activities.

A setback that may confront women in business, whether their status is “token” or not, is an unseen obstacle called a “glass ceiling” which inhibits promotion beyond a certain point. In regard to men, Williams (1992) found that males working in the female-dominated occupations of nursing, teaching, librarianship, and social work did not face discrimination as “tokens” but receive benefits that enhance their careers hence enabling them to rise on a “glass escalator” to the top. Another problem faced by women is the so-called “glass cliff” that they may be confronted with when they achieve high profile positions (Campbell and Minguez-Vera, 2010). Evidence points to the fact that women are more likely to be promoted to leadership positions after a period of dismal firm performance, hence diminishing their chances of achieving future success (Ryan and Haslam, 2005).

Without considering the possible presence of unseen (“glass”) ceilings, escalators or cliffs, boards with high levels of gender diversity may encourage directors of the same gender



to more strongly identify themselves with each other's opinions, thus increasing the chance of conflict (Richard et al. 2004). This can be problematic if a firm competes in a highly aggressive industry where quick reaction is required (Williams and O'Reilly 1998). Even though, the decisions of a more gender diverse board may be of a higher quality, this may be outweighed by the adverse effects of a slow decision-making (Hambrick et al. 1996).

### **2.1.5 Board gender diversity and firm performance**

Gender, as one of the governance issues highlighted by Carter, Simkins and Simpson (2003) is the current issue facing shareholders, managers and directors alike in the modern corporate environment. This issue has been brought to the public limelight through the media, advocacy groups and even public policies from investors (mostly institutional investors).

Despite this pressure on modern corporations, the existing studies on the impact of board gender diversity on firm performance show mixed results (Rand\oy et al. 2006). The association between board gender diversity and firm performance shows inconclusive evidence in the non-financial sector studies. The effect of board gender diversity on firm performance is believed to arise because of the benefits that accompany board gender diversity. This was explained intuitively by Robinson & Dechant (1997). It is argued that this diversity promotes a better understanding of the marketplace in which a firm operates.

Since the marketplace itself is diverse, gender diversity will make it easy for firms to penetrate these markets. Robinson & Dechant (1997) also noted that gender diversity in boards increase creativity and innovation. This view therefore states that the attitudes, beliefs and cognitive functioning of humans are not distributed in a random pattern but appear to be systematically distributed with variables like gender, race and age. It is further noted that diversity especially in terms of gender leads to greater problem solving. This is because many alternatives are carefully evaluated in terms of pros and cons.

Some researchers have actually established that a board that is diverse in terms of gender is likely to have positive impact on its performance. For instance, (Erhardt et al. 2003) established that a company that has got women and minority groups as part of its directors tend to have positive impact on performance. Erhardt, Werbel, & Shrader, (2003), carried their study in the US for a period six years starting from 1993 to 1998. The performance here was measured by return on assets and return on investment. Their study as well looked at large companies in all the industries in the US. Even though, the findings of this study were positive, it will be hard to attribute the positive results to women directors

only as minorities are also included. The minority could even be male directors who come from minority tribes or groups.

Several other researchers have come to the same conclusion that board gender diversity has positive effect on firm performance. Minguez-Vera & Campbell (2008) for instance, found this to be the case in Spain. Even though firm performance was measured by Tobin's Q, the results were similar to those of accounting measures like return on assets and return on investment. This study however did not consider all firms in Spain in that financial sector firms were eliminated from the sample. This study also focused on only companies listed on the continuous market of Madrid.

Other authors, in particular those from Australia have established that gender diversity is positively related to firm value e.g. (Nguyen et al. n.d.); (Bonn 2004). Firm value was measured by Tobin's Q. These studies involved large firms on the Australian stock exchange for a period of two years from 2000 to 2001. They also applied 2SLS methodology in its analysis of the effect of gender on performance.

In as much different studies from different countries have established positive impact of board gender diversity on firm performance, others still established negative impact. This shows how inconclusive the concept of gender diversity is. For instance, (Bøhren & Strøm 2007) established negative relationship between board gender diversity and firm performance for the Norwegian firms. This is in contrast to other studies in the Scandinavian countries which established no relationship at all e.g. (Randøy et al. 2006). Randøy et al. (2006) while undertaking a study in the Nordic countries of Denmark, Norway and Sweden established that gender diversity in corporate boards do not have any effect on the performance of the firms. They measured performance by the return on assets. This came on the backdrop of a push to have female directors to occupy at least 40% of the board seats in these Nordic countries.

At the same time, a study by (Rose 2007) in Denmark established similar results to those of Randøy et al. (2006) that board diversity has no effect on firm performance. Rose's study however focused on listed companies and employed Tobin's Q as its performance measure as opposite to Randøy et al. (2006) who employed returns on assets. This study as well focused on country only. Contrary to the studies of Randøy et al. (2006) and Rose, (2007)(N. Smith et al. 2006) established that board gender diversity has a positive effect on performance of firms in Denmark. Their study focused on the large 2500 Danish firms during the period 1993-2001. However, their study used performance measures such as gross value added to net turnover, profit on ordinary operations to net turnover, ordinary result to net

assets and net result after tax to net assets which may be considered weak. One thing that is common among these studies from Scandinavian countries is that they majorly focused on non-financial firms.

Other studies that found no relationship between gender diversity and firm performance include Kochan et al. (2003) while studying the US firms. At the same time Shrader et al. (1997) studying still US firms found no significant effect of gender diversity in top management and firm value, though negative effects were found in some cases. This is in contrast to studies of (Erhardt et al. 2003); (Carter et al. n.d.); Catalyst, (2004) which established significantly positive relationship between board gender diversity and firm performance.

Majority of the studies on financial sector do not deal with board gender diversity rather on other board attributes such as board size, board composition among others. In one study carried out in Ghana, Adusei (2010) established that board size has an effect on performance in banks. He alluded to the fact that small boards have positive effect on performance of the firm as measured by return on equity. In yet another study on board size, Staikouras et al. (2007) established among the 58 banks in Europe that large boards hurt the performance of banks. This therefore means that the smaller the board the higher the performance of the bank. In as much as some studies have established that board size has an effect on performance, other studies also such as those of Adams and Mehran (2005); Belkhir (2009), found no effect between board size and firm performance. Specifically, Belkhir (2009) while carrying a study on 174 US bank and savings institutions did not report any positive relationship between board size and performance as measured by Tobin's Q.

Looking at board composition, Staikouras et al. (2007) find that board composition does not affect firm performance although its relationship with performance was found to be positive. These findings were similar to those of Adusei (2010) who found no relationship between board composition and bank performance in Ghana although board composition was found to have positive effect on bank efficiency. At the same time, Alonso and Gonzalez (2006) studied 66 banks in OECD countries from 1996 to 2003. They established an inverted U shaped relation between the measures of bank performance (Tobin's Q, ROA, the annual market return of a bank shareholder) and board size which they posit justifies a large board but imposing an efficient limit on size.

Their findings as well indicate a positive relation between the non-executive directors and performance. Moreover, Busta (2007) sampled 69 listed banks from the EU banking sectors over the period 1996-2005 and 125 banks operating in EU-15 and Switzerland during

2004. The findings for the 69 listed banks indicate that a higher presence of outside directors on boards perform better in terms of the market-to-book value and return on invested capital, in Continental Europe, while negative results were obtained in the case of UK banks.

Busta (2007) finds no evidence of a significant association between board composition and ROA. At the same time, the effect of the board size, although positive, was insignificant in all cases. The results from the 125 banks show that board size has a positive relationship with the market-to-book ratio and return on investment capital and negatively related to return on assets; however it is insignificant in most cases.

Zulkaflī and Samad (2007) examined 107 banks in 9 Asian markets in 2004. Their findings suggest no significant relationship between performance measures (e.g. return on assets and Tobin's Q) and the board size or composition. Lastly, based on a sample of large publicly traded US banks, Pi and Timme (1993) reported that cost efficiency and return on assets are insignificantly related to the percentage of inside (outside) directors.

For the few financial sector studies that focused on board gender diversity, the results points to a positive relationship between bank performance and the presence of female directors in boards. Gulamhussen & Santa (2010) established a positive relationship between bank performance and board gender diversity among the OECD countries banking industry. 2SLS model was used to analyze the effect of board diversity on performance. Only 25 top banks were sampled.

### **3.1 Research methods**

#### **3.1.2 Research Design**

This study is considered correlational since it attempts to analyze relationship between gender diversity and bank performance. Further to this, the study is explanatory in nature as it establishes whether gender diversity, in combination with other controlled variables, causes bank performance to change.

The effect of gender diversity on bank performance was analyzed over a twelve-year period from 1998 to 2009. This period was picked because to establish the real effect of gender diversity on bank performance at least two new boards have to be considered. And since a board has a life span of six years, it follows then that a full board is constituted after every six years. Therefore, two boards constitute twelve years hence the study period.

### **3.1.3 Population and Sampling**

The target population for this study is the forty four commercial banks in Kenya as per the Central Bank of Kenya's Banking Supervision Report of 2009. All the forty four commercial banks are studied since they are few in number hence a census survey study. But since the data required for this study is from 1998 to 2009, 12 commercial banks were eliminated as they had incomplete data for the twelve- year period under consideration.

### **3.1.4 Data Description and Collection**

The data for this paper was obtained from secondary sources. Secondary sources encompassed financial data from financial statements of the commercial banks. This was taken because this type of data was easily accessible from the Central Bank Kenya (CBK) and the Banking Survey Reports of 2008 and 2010.

### **3.1.5 Data Analysis**

Stepwise regression model is used to analyze the quantitative data collected in this study. Regression was used because it was the most common model used by many researchers. Also regression can be used to show the relationship between variables. It does not only show positive, negative or no relationship but also tells the strength of that relationship (Jonson and Kuby, 2007). Specifically, stepwise regression was used as it was anticipated that there would be some inter-relation among some independent variables.

## **4.1 Results/Findings**

### **4.1.1 Presence of female directors**

After undertaking stepwise regression, some of the variables which were not significant in the model were dropped leaving only those that were significant. These variables had been applied by other researchers in different countries as control variables for bank profitability. Therefore, the following control variables were dropped: Loan to total deposits ratio (LODP), age of the bank (Bage), Board of directors' size (BoS), bank size (BS), loan to asset ratio (LA), net interest to total asset ratio (NIMTA) and lastly listing status of the bank (Lstatus). These variables seem to have no explanatory power on the performance of the bank as measured by return on assets.

Board diversity was measured as presence of female directors taking a value of one if the bank has at least one female director and zero otherwise. The last step in the stepwise regression is used in analysis. The initial regression model was as follows:

$$ROA_{it} = f(FD, OE, LLP, EA, LNTDP, CIR)$$

From table 4.7 below, the relationship between presence of female directors and ROA is depicted to be negative with a coefficient of 0.0007. Its t-statistic is -0.29 whereas the corresponding p-value is 0.774.

**Table 4.1:** Regression output with ROA as predictor and presence of female directors as independent variable

Independent variables	Coefficient	T-statistic	P-value
Intercept	-0.04520		
FD	-0.0007	-0.29	0.774
CIR	-0.0921	-20.99	0.000**
OE	0.155	7.54	0.000**
EA	0.105	9.70	0.000**
LLP	-0.0142	-4.59	0.000**
LNTDP	0.00418	4.39	0.000**
R <sup>2</sup>	66.51%		
R <sup>2</sup> (Adj)	65.89%		

The significance of the coefficients is obtained using p-values with \*\* denoting significance at 5% **Source:** 1998-2009 data (author)

#### 4.1.2 Proportion of female directors

Another measure of board diversity was proportion of female directors (PFD). This was included in a regression model as follows;

$$ROA_{it} = f(PFD, OE, LLP, EA, LNTDP)$$

After regressing ROA against the independent and control variables, some of the variables were dropped automatically by the stepwise regression. The variables that were

dropped included bank size (BS), board of directors' size (BoS), listing status of the bank (Lstatus), Loan to asset ratio (LA), net interest to total asset ratio (NIMTA) and age of the bank (Bage).

These were the same variables that were dropped when ROA was regressed against the measure for presence of female directors (FD) and other control variables.

As shown in table 4.2 below;

**Table 4.2:** Regression output with ROA as predictor and Proportion of Female Directors as independent variable

Independent variables	Coefficient	T-statistic	P-value
Intercept	-0.05588		
PFD	-0.018	-1.47	0.143
CIR	-0.0919	-21.0	0.000**
OE	0.153	7.50	0.000**
EA	0.106	9.79	0.000**
LLP	-0.0141	-4.59	0.000**
LNTDP	0.00467	4.91	0.000**
R <sup>2</sup>	67.09%		
R <sup>2</sup> (Adj)	66.03%		
The significance of the coefficients is obtained using p-values with ** denoting significance at 5%			
<b>Source:</b> 1998-2009 data (author)			

The Proportion of female directors was found to have negative relationship with bank performance just as was the case with presence of female directors on the board. However, proportion of female directors had a higher coefficient value (0.018) compared to that of presence of the female directors (0.0007). The coefficient of percentage of female directors (0.018) is found to be insignificant based on its p-value which is 0.143. The other control variables and their respective coefficients and p-values are as shown in the table.



These findings suggest that board diversity is negatively, although not statistically significant, related to performance of banks in Kenya. These are similar to the findings of (Gulamhussen & Santos n.d.) who established that the presence of women on the board is negatively related to the risk taking measures in the bank although it was significant in their case. On the effect of board gender diversity on bank performance based on the p-values (0.774 and 0.143), the study established that board gender diversity has no effect on bank performance in the Kenyan context. The findings of this study confirm the findings of other empirical studies carried out in different countries. Although the empirical studies in these other countries were not based on the banking industry the results are similar. For instance, Shrader et al (1997) established in the US that board diversity has no effect on firm performance. This is similar to the study of Smith et al (2006) which found no significant relationship between board gender diversity and various accounting measures in Denmark. Other studies whose findings are confirmed by this study are those of Rose (2007); Randoy et al. (2006); Du Rietz and Henrekson (2000). At the same time De Cabo et al. (2009) found out that among the European Union Banks the proportion of women on the board had no significant differences in relation to ROA. The implication of these findings as noted by (Campbell & Mínguez-Vera 2008) is that the presence of female directors is not punished by the business community since its effect is not significant on the performance of the bank.

In the banking industry, the findings of this study are in-consistent with some of the empirical studies carried out. For example, (Gulamhussen & Santos n.d.) who found positive and statistically significant relationship between female directors and performance measures like return on assets and return on equity. The coefficients of the control variables are as follows: CIR = -0.0921, -0.0919; EA= 0.105, 0.106; LLP= -0.0142, -0.0141; OE= 0.155, 0.153; LNTDP= 0.00418, 0.00467.

These coefficients are arranged starting with those obtained when presence of female directors is used as explanatory variable and followed by those obtained when proportion of female directors was used as explanatory variable respectively. All these coefficients are significant based on their respective p-values as shown in tables 4.4 and 4.5. The cost to income ratio was found to have a negative relationship with ROA. This implies that the higher CIR ratio the lower the performance of the bank as measured by ROA. The equity to asset ratio is positively related to ROA meaning the higher the leverage position for the bank the higher the performance. Meanwhile the positive relationship between total deposits and performance of banks as posited by Adusei (2010) is confirmed by this study since the relationship between ROA and total deposits.

The theory put forward by Grammatikos and Saunders (1990), Madura and Zarruk (1992) with regard to the quality of credit of the bank and profitability is also being confirmed in this study. The loan loss provision is used to capture the quality of credit. The theory states that the higher the loan loss provision the lower the credit quality and hence the lower the profitability. In this study the loan loss provision was found to be negatively related to ROA implying that the higher the loan loss provision the lower the ROA hence confirming the theory.

With regard to equity to asset ratio, the coefficient was found to be positive. This implies that the higher this ratio the higher the ROA. Equity to asset ratio is a measure of financial leverage of a bank. The relationship found in this study between equity asset ratio and ROA is consistent with findings of Bourke (1989) and Molyneux and Thornton (1992) who observed the positive relationship between equity to asset ratio and bank profitability. Looking at the effect of overhead efficiency on profitability, the study found out that the overhead efficiency ratio has a positive relationship with ROA implying that the higher the ratio the higher the performance of the bank. This is consistent with the findings of Staikouras et al (2009) and Molyneux and Thornton (1992).

## **5.1 Conclusion**

One of the main findings of this study is that board gender diversity has no significant effect on the performance of banks. This is shown by a statistically insignificant relationship between board gender diversity and bank performance. These findings suggest that diversity could be an important corporate governance concept in other business facets as opposed to boardrooms. Whatever measure that could be taken to improve gender diversity in boards may not be seen negatively by the business community since it does not have any effect on the bottom-line of banks. This is consistent with Campbell and Minguez-Vera (2008) who suggested in Spain that the market does not punish firms that have included female directors on the boards since board gender diversity was found to have no effect on performance. These findings could be like this may be because majority of the boards are male dominated and the few women that are on the board may not be having any influence on the strategies of the bank. It would be interesting to see what would happen if the numbers female directors were to increase dramatically.

Majority of the banks had no female director on their boards. And for those who had female directors on their boards the number was so small. Majority of those banks had only

one female director which could point to tokenism as explained by Kanter (1977). Tokenism is whereby percentages of representation in the community fall below 15%, those who are different are seen as representing their category rather than being seen as individual, because they are so unusual (Singh and Vinnicombe, 2004). Tokens are always accommodated by having public face at work while keeping private face hidden. Since women on the board are minority it points then that women are tokens in the banking industry giving a hand to the tokenism theory.

Another possible interpretation of this phenomenon could be that there may be glass ceiling in majority of the banks in Kenya. Since board members are the most senior people in organization as some of them rise above the ranks and become board members. If this is the case, then may female employees face glass ceiling (i.e. promotion to a certain level but not beyond) in those organizations(Williams 1992).

Few women on the board may have come about also because may be women in general do not have the necessary training and experience to work in the financial sector. Although, in one study in the UK, it was established that number of female directors on the boards of finance and utilities and transport industry was higher as compared to other industries (Grosvold et al. (2007). The findings on the number of female directors on the Kenyan boards could also point to the fact there is a glass ceiling on women in many organizations.

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